

## Message Text

LIMITED OFFICIAL USE

PAGE 01 TOKYO 09576 170937Z

20

ACTION EB-07

INFO OCT-01 EUR-12 EA-06 IO-10 ISO-00 AID-05 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 STR-04

DODE-00 PA-01 PRS-01 TAR-01 /078 W

----- 090397

R 170120Z JUL 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 1659

INFO USMISSION OECD PARIS

USMISSION GENEVA

USDEL MTN GENEVA

LIMITED OFFICIAL USE TOKYO 9576

E.O. 11652: N/A

TAGS: ETRD, JA

SUBJ: PLANT EXPORT LOSS RESERVE SYSTEM UNDER STUDY BY MITI

REF: A. STATE 155180 B. TOKYO 8000 (NOTAL)

SUMMARY: PLANT EXPORT LOSS RESERVE SYSTEM INVOLVING TAX INCENTIVES STILL UNDER STUDY WITHIN MITI, BUT MITI IS PROCEEDING CAUTIOUSLY INVIEW OF USG CONCERN OF GOJ AWARENESS OF GATT AND TRADE PLEDGE PROBLEMS. END SUMMARY.

1. ON JULY 11 EMBOFFS REVIEWED WITH OFFICIALS OF MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MIZUTANI, DEPUTY DIRECTOR, INTERNATIONAL TRADE DIVISION, MACHINERY AND INFORMATION INDUSTRIES BUREAU) PLANT EXPORT LOSS RESERVE SYSTEM EARLIER REPORTED REF B.

2. MIZUTANI STRESSED THAT RESERVE SYSTEM WAS AT PRESENT UNDER STUDY ONLY WITHIN MITI (I.E. NOT WITHIN GOJ AS A WHOLE) AND THAT, EVEN WITHIN MITI, NO FIRM DECISION  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TOKYO 09576 170937Z

HAD BEEN TAKEN WHETHER TO PUSH FOR IMPLEMENTATION OR

DISCARD IDEA. IN SPITE OF HIS APPREHENSIONS THAT EXPLANATION OF THE SYSTEM AT THIS TIME MIGHT BE PREMATURE, HE SAID, HE UNDERTOOK TO EXPLAIN IT ON THE UNDERSTANDING THAT WHAT HE WAS EXPLAINING WAS NO MORE THAN A THEORETICAL QUESTION PAPERPLAN QUESTION.

3. UNDER THE SYSTEM, MIZUTANI SAID, AN ENTERPRISE, UPON SIGNING A CONTRACT FOR PLANT EXPORT, WOULD BE ALLOWED TO DEDUCT FROM INCOME, OVER A FIVE-YEAR PERIOD, UP TO 25 PERCENT OF THE VALUE OF THE PLANT EXPORT TRANSACTION AS A RESERVE AGAINST LOSSES. THE AMOUNTS SO TRANSFERRED WOULD NOT BE TAXABLE AS INCOME. UPON CONCLUSION OF THE TRANSACTION, IN THE EVENT THE RESERVE WAS NOT NEEDED TO OFFSET LOSSES, FUNDS IN THE RESERVE WOULD BE TRANSFERRED BACK TO THE ENTERPRISE'S PROFITS OVER A PERIOD OF THREE YEARS. SUCH TRANSFERS OUT OF RESERVE WOULD BE SUBJECT TO NORMAL CORPORATE PROFIT TAXES. THIS SYSTEM, IF ADOPTED, WOULD BE APPLICABLE ONLY TO EXPORT DEALS AND NOT TO DOMESTIC TRANSACTIONS.

4. DRAWING ON REF A, EMBOFFS EXPRESSED USG CONCERN AT OUR UNDERSTANDING OF MITI PROPOSAL AND DREW ATTENTION TO POSSIBLE GATT AND OECD TRADE PLEDGE PROBLEMS. MIZUTANI SAID MITI WAS FULLY AWARE OF USG CONCERN AND OF POSSIBLE TRADE PLEDGE PROBLEMS. MITI DOES NOT VIEW THE SYSTEM AS A DIRECT SUBSIDY SUCH AS INFLATION INSURANCE, RECENTLY DISCUSSED IN TRADE PLEDGE CONTEXT, BUT ACKNOWLEDGES THAT SYSTEM DOES INVOLVE A TAX INCENTIVE FOR EXPORT TRANSACTIONS. MITI SEES NEED FOR SOME SYSTEM TO PROTECT AGAINST LOSSES FROM PLANT EXPORT TRANSACTIONS, CONSIDERING ENORMOUS SIZE OF MANY PROJECTS AND ACCOMPANYING LARGE RISKS, AND JAPANESE FIRMS' CONSEQUENT RELUCTANCE EVEN TO BID. MITI RELATES PROBLEM TO JAPAN'S PLEDGES OF ECONOMIC COOPERATION TO VARIOUS COUNTRIES, IN PARTICULAR MID EAST COUNTRIES (UNDER WHICH, TYPICALLY, PROMISED GOJ AID IS CONTINGENT ON JAPANESE FIRM'S WINNING THE BIDDING). THUS, SAID MIZUTANI, MITI WOULD LIKE TO FIND WAY TO IMPLEMENT SCHEME IN AID CONTEXT (FOR WHICH PROPOSED LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 TOKYO 09576 170937Z

GENTLEMEN'S AGREEMENT ALLOWS AN EXCEPTION) RATHER THAN IN EXPORT FINANCING CONTEXT.

5. EMBOFFS REQUESTED WE BE KEPT INFORMED OF DEVELOPMENTS, AND MIZUTANI EXPRESSED HIS WILLINGNESS TO DO SO.  
HODGSON

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** EXPORTS, TAX PRIVILEGES, BUSINESS LOSSES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 17 JUL 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** CunninFX  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975TOKYO09576  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750247-0160  
**From:** TOKYO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750745/aaaaboer.tel  
**Line Count:** 114  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 STATE 155180, 75 TOKYO 8000  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** CunninFX  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 20 MAY 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <20 MAY 2003 by ShawDG>; APPROVED <03 OCT 2003 by CunninFX>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PLANT EXPORT LOSS RESERVE SYSTEM UNDER STUDY BY MITI  
**TAGS:** ETRD, JA  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006